

COOPER INDUSTRIES LTD

Form 10-Q

August 05, 2008

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**10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

**Commission File Number 1-31330
Cooper Industries, Ltd.**

(Exact name of registrant as specified in its charter)

Bermuda

98-0355628

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

600 Travis, Suite 5600

Houston, Texas 77002

(Address of principal executive offices)

(Zip Code)

(713) 209-8400

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of registrant's common stock outstanding as of June 30, 2008 was 173,993,815 Class A common shares that are held by the public and 29,872,731 Class A common shares and 109,620,258 Class B common shares that are held by the issuer's wholly-owned subsidiaries.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
COOPER INDUSTRIES, LTD.
CONSOLIDATED INCOME STATEMENTS
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(in millions, except per share data)			
Revenues	\$ 1,724.3	\$ 1,463.7	\$ 3,270.4	\$ 2,857.7
Cost of sales	1,163.5	984.6	2,185.7	1,929.5
Selling and administrative expenses	314.4	269.1	615.9	524.5
Operating earnings	246.4	210.0	468.8	403.7
Income from Belden agreement		3.3		3.3
Interest expense, net	18.3	12.9	33.2	25.8
Income before income taxes	228.1	200.4	435.6	381.2
Income taxes (benefits)	66.2	(8.8)	120.3	40.1
Net income	\$ 161.9	\$ 209.2	\$ 315.3	\$ 341.1
Net income per common share:				
Basic	\$.93	\$ 1.14	\$ 1.79	\$ 1.86
Diluted	\$.92	\$ 1.12	\$ 1.77	\$ 1.83
Cash dividends declared per common share	\$.25	\$.21	\$.50	\$.42

The accompanying notes are an integral part of these statements.

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**COOPER INDUSTRIES, LTD.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2008 (unaudited)	December 31, 2007 (Note 1)
	(in millions)	
ASSETS		
Cash and cash equivalents	\$ 154.7	\$ 232.8
Investments	51.3	93.7
Receivables	1,230.9	1,048.6
Inventories	749.5	643.7
Deferred income taxes and other current assets	270.0	284.2
 Total current assets	 2,456.4	 2,303.0
Restricted cash		290.1
Property, plant and equipment, less accumulated depreciation	768.5	719.8
Goodwill	2,741.8	2,540.3
Other noncurrent assets	382.0	280.3
 Total assets	 \$ 6,348.7	 \$ 6,133.5
 LIABILITIES AND SHAREHOLDERS EQUITY		
Short-term debt	\$ 114.3	\$ 256.1
Accounts payable	573.6	533.1
Accrued liabilities	565.4	566.7
Current discontinued operations liability	191.3	179.1
Current maturities of long-term debt	0.1	100.1
 Total current liabilities	 1,444.7	 1,635.1
Long-term debt	1,207.5	909.9
Postretirement benefits other than pensions	80.6	81.4
Long-term discontinued operations liability	330.0	330.0
Other long-term liabilities	423.0	335.2
 Total liabilities	 3,485.8	 3,291.6
Common stock, \$.01 par value	1.7	1.8
Capital in excess of par value		85.7
Retained earnings	2,907.3	2,835.1
Accumulated other nonowner changes in equity	(46.1)	(80.7)
 Total shareholders equity	 2,862.9	 2,841.9
 Total liabilities and shareholders equity	 \$ 6,348.7	 \$ 6,133.5

The accompanying notes are an integral part of these statements.

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COOPER INDUSTRIES, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended	
	June 30,	
	2008	2007
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 315.3	\$ 341.1
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	70.3	57.8
Deferred income taxes	4.9	5.9
Excess tax benefits from stock options and awards	(3.4)	(20.8)
Changes in assets and liabilities: ⁽¹⁾		
Receivables	(122.2)	(133.5)
Inventories	(63.4)	(25.2)
Accounts payable and accrued liabilities	(13.1)	(24.7)
Other assets and liabilities, net	76.9	8.7
Net cash provided by operating activities	265.3	209.3
Cash flows from investing activities:		
Proceeds from short-term investments	41.3	
Proceeds from cash restricted for business acquisitions	290.1	
Capital expenditures	(57.9)	(56.1)
Cash paid for acquired businesses	(269.6)	(170.5)
Proceeds from sales of property, plant and equipment and other	1.0	0.8
Net cash provided by (used in) investing activities	4.9	(225.8)
Cash flows from financing activities:		
Proceeds from issuance of debt	297.6	306.7
Debt issuance costs	(0.5)	(2.7)
Proceeds from debt derivatives	0.5	10.0
Repayments of debt	(299.1)	(3.0)
Dividends	(82.8)	(77.9)
Purchase of common shares	(282.9)	(74.0)
Excess tax benefits from stock options and awards	3.4	20.8
Proceeds from exercise of stock options	10.8	49.5
Net cash provided by (used in) financing activities	(353.0)	229.4
Effect of exchange rate changes on cash and cash equivalents	4.7	3.6
Increase (decrease) in cash and cash equivalents	(78.1)	216.5
Cash and cash equivalents, beginning of period	232.8	423.5
Cash and cash equivalents, end of period	\$ 154.7	\$ 640.0

- (1) Net of the effects of acquisitions and translation.

The accompanying notes are an integral part of these statements.

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**COOPER INDUSTRIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

Note 1. Accounting Policies

Basis of Presentation - The consolidated financial statements of Cooper Industries, Ltd., a Bermuda company (Cooper), have been prepared in accordance with generally accepted accounting principles in the United States.

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. Financial information as of December 31 has been derived from Cooper's audited financial statements, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods indicated, have been included. For further information regarding Cooper's accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 2007 included in Part IV of Cooper's 2007 Annual Report on Form 10-K.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing assets or liabilities and establishes a hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. On February 12, 2008, the FASB delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). For Cooper, this action defers the effective date for those assets and liabilities until January 1, 2009. The implementation of SFAS No. 157 as of January 1, 2008 for assets and liabilities not subject to the deferral described above did not have a material impact on the Company's results of operations, financial position or cash flows. See Note 12 of the Notes to the Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies to choose to measure many eligible recognized financial assets and financial liabilities, financial instruments and certain other eligible items at fair value that are not otherwise required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. For Cooper, the Statement was effective January 1, 2008. The implementation of SFAS No. 159 as of January 1, 2008 did not have any impact on the Company's results of operations, financial position or cash flows as Cooper did not elect to measure any eligible items at fair value that were not already required to be measured at fair value.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) provides enhanced guidance related to the measurement of identifiable assets acquired, liabilities assumed and disclosure of information related to business combinations and their effect on the Company. This Statement, together with the International Accounting Standards Board's (IASB) IFRS 3, *Business Combinations*, completes a joint effort by the FASB and IASB to improve financial reporting about business combinations and promotes the international convergence of accounting standards. For Cooper, SFAS No. 141(R) applies prospectively to business combinations completed on or after January 1, 2009 and is not subject to early adoption. Cooper is currently evaluating the potential impact of SFAS No. 141(R) on business combinations and related valuations.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidating Financial Statements* (SFAS No. 160). SFAS No. 160 provides enhanced guidance related to the disclosure of information regarding noncontrolling interests in a subsidiary and their effect on the Company. This Statement, together with the IASB's IAS 27, *Consolidated and Separate Financial Statements*, concludes a joint effort by the FASB and IASB to improve the accounting for and reporting of noncontrolling interests in consolidated financial statements and promotes international convergence of accounting standards. For Cooper, SFAS No. 160 is effective in 2009. Cooper is currently evaluating the impact of this Statement on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. For Cooper, SFAS No. 161 is effective in 2009. Cooper is currently evaluating the impact of this Statement on the disclosures to its consolidated financial statements.

Note 2. Stock-Based Compensation

Cooper has a share-based compensation plan known as the Amended and Restated Stock Incentive Plan (the Plan). The Plan provides for the granting of stock options, performance-based share awards and restricted stock units. The Plan was updated in April 2008 to increase by 7 million the number of authorized shares available under the Plan, to extend the term of the Plan from November 7, 2010 to November 7, 2015 and for certain other matters. Since the original Plan's inception in 1996, the aggregate number of shares authorized under the Plan is 41 million. As of June 30, 2008, 8,112,563 shares were available for future grants under the Plan. Of the total shares available for future grants, 3,104,058 are available for grants of performance-based shares and restricted stock units. Total compensation expense for all share-based compensation arrangements under the Plan was \$18.5 million and \$19.0 million for the six months ended June 30, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for all share-based compensation arrangements under the Plan was \$6.4 million and \$6.9 million for the six months ended June 30, 2008 and 2007, respectively. During the six months ended June 30, 2008, Cooper granted 1,888,750 stock option awards, 567,800 performance-based shares and 134,280 restricted stock units.

Note 3. Acquisitions

Cooper completed two acquisitions during the six months ended June 30, 2008. These acquisitions were selected because of their strategic fit with existing Cooper businesses or were new strategic lines that were complementary to Cooper's operations. Approximately two-thirds of the revenues of these businesses are outside of the United States.

In February 2008, Cooper completed the acquisition of MTL Instruments Group plc (MTL). MTL is a leader in the development and supply of electronic instrumentation and protection equipment for use in hazardous environments. The total purchase price, including assumed debt, was approximately \$325 million. The MTL acquisition resulted in the recognition of a preliminary estimate of goodwill of \$177.3 million, primarily related to the future earnings and cash flow potential from MTL's worldwide customer base. The MTL acquisition is included in the Electrical Products segment.

Total cash paid for the two acquisitions was \$261.1 million, net of cash acquired, including acquisition costs. The acquisitions resulted in the recognition of preliminary estimated aggregate goodwill of \$178.0 million.

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Cooper makes an initial allocation of the purchase price as of the date of acquisition, based on its understanding of the fair value of the assets and liabilities acquired. In the months after the closing of the transaction, Cooper obtains additional information about the assets and liabilities acquired, and finalizes allocation of the purchase price.

The following table summarizes the aggregate estimated preliminary fair values of the assets acquired and the liabilities assumed at the acquisition date for the acquisitions completed during the six months ended June 30, 2008:

	MTL	Other (in millions)	Total
Receivables	\$ 43.0	\$ 0.7	\$ 43.7
Inventories	32.2	0.4	32.6
Property, Plant and Equipment	41.7	1.5	43.2
Goodwill	177.3	0.7	178.0
Other intangible assets	100.5	0.4	100.9
Accounts payable	(12.4)	(0.2)	(12.6)
Short-term debt	(56.6)		(56.6)
Other assets and liabilities, net	(68.0)	(0.1)	(68.1)
Net cash consideration	\$ 257.7	\$ 3.4	\$ 261.1

During 2007, Cooper completed thirteen acquisitions. Six of the acquisitions, representing approximately 28% of the cash consideration, were outside of the United States. All of these acquired businesses are included in the Electrical Products segment.

The following table summarizes the aggregate estimated preliminary fair values of the assets acquired and the liabilities assumed at the date of acquisition for the acquisitions consummated during the year ended December 31, 2007:

	(in millions)
Receivables	\$ 58.0
Inventories	48.8
Property, Plant and Equipment	41.7
Goodwill	183.0
Other intangible assets	122.3
Accounts payable	(36.5)
Other assets and liabilities, net	(72.8)
Net cash consideration	\$ 344.5

Cooper continues to evaluate the fair value of the assets and liabilities acquired and will adjust the allocations as additional information relative to the businesses becomes available for up to one year from the acquisition date. This includes finalization of amount by major asset class and weighted-average amortization period for other intangible assets acquired.

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The results of operations of the acquisitions are included in the consolidated income statement since the respective acquisition dates. The unaudited pro-forma data for the periods set forth below gives effect to the above noted acquisitions as if they had occurred at the beginning of the periods presented. This data is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisitions been consummated as of that time:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(in millions, except per share amounts)			
Revenues	\$ 1,724.3	\$ 1,558.6	\$ 3,289.7	\$ 3,048.2
Net income	\$ 161.9	\$ 210.5	\$ 314.5	\$ 338.3
Diluted earnings per share	\$.92	\$ 1.13	\$ 1.77	\$ 1.81

Note 4. Inventories

	June 30, 2008	December 31, 2007
	(in millions)	
Raw materials	\$ 252.3	\$ 221.5
Work-in-process	199.7	178.8
Finished goods	467.4	396.2
Perishable tooling and supplies	14.6	15.0
	934.0	811.5
Allowance for excess and obsolete inventory	(84.5)	(77.9)
Excess of current standard costs over LIFO costs	(100.0)	(89.9)
Net inventories	\$ 749.5	\$ 643.7

Note 5. Debt

At June 30, 2008, Cooper has \$114.3 million of short-term debt, of which \$89.8 million is U.S. commercial paper. In connection with the acquisition of MTL in February 2008, Cooper assumed short-term debt of approximately \$47.8 million which has subsequently been repaid and issued short-term loan notes of \$8.8 million. At June 30, 2008 Cooper has \$8.8 million of loan notes related to MTL included in short-term debt. At June 30, 2008 Cooper has U.S. committed credit facilities that total \$553 million, of which \$53 million matures in March 2009 and of which \$500 million matures in November 2009.

On March 27, 2008, Cooper US, Inc., a subsidiary of Cooper, issued \$300 million of 5.45% senior unsecured notes that mature on April 1, 2015. Payment of the notes is guaranteed by Cooper and certain of its principal operating subsidiaries. Proceeds from the financing were used to repay outstanding commercial paper. Combined with the debt issuance discount, underwriting commissions and interest rate hedges implemented in anticipation of the financing, the notes have an effective annual cost to Cooper of 5.56%.

Note 6. Shareholders Equity

At June 30, 2008, 173,993,815 Class A common shares, \$.01 par value were issued and outstanding (excluding 29,872,731 Class A common shares held by wholly-owned subsidiaries) compared to 179,453,923 Class A common shares, \$.01 par value (excluding 27,195,002 Class A common shares held by wholly-owned subsidiaries) at December 31, 2007. During the six months ended June 30, 2008, Cooper issued 1,200,071 Class A common shares primarily in connection with employee incentive and benefit plans and Cooper's dividend reinvestment program. During the six months ended June 30, 2008, Cooper and its wholly-owned subsidiaries purchased 6,660,179 Class A

common shares for \$282.9 million under the

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Company's share repurchase plans. The share purchases are recorded by Cooper's wholly-owned subsidiaries as an investment in its parent company that is eliminated in consolidation.

A wholly-owned subsidiary also owns all of the issued and outstanding Class B common shares. The subsidiary's investment in the Class B common shares is eliminated in consolidation. If at any time a dividend is declared and paid on the Class A common shares, a like dividend shall be declared and paid on the Class B common shares in an equal amount per share.

On February 12, 2008, Cooper's Board of Directors increased the annual dividend rate of Cooper's common stock by \$.16 per share to \$1.00. On February 12, 2008, Cooper's Board of Directors authorized the purchase of ten million shares of common stock in addition to the remaining November 2, 2004 authorization. In the six months ended June 30, 2008, Cooper repurchased the 3 million shares intended to offset dilution from share issuances under equity compensation plans, as well as approximately 3.7 million additional shares under the Cooper Board of Directors authorizations discussed above. Cooper may continue to repurchase shares under this authorization from time to time during 2008. The decision whether to do so will be dependent on the favorability of market conditions, as well as potential cash requirements for acquisitions. As of June 30, 2008, 10,778,968 shares remain available to be repurchased under the authorizations by the Board of Directors.

Note 7. Segment Information

	Revenues			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(in millions)			
Electrical Products	\$ 1,510.0	\$ 1,272.3	\$ 2,871.6	\$ 2,482.9
Tools	214.3	191.4	398.8	374.8
Total revenues	\$ 1,724.3	\$ 1,463.7	\$ 3,270.4	\$ 2,857.7

	Operating Earnings			
	Three Months		Six Months Ended	
	Ended		June 30,	
	2008	2007	2008	2007
	(in millions)			
Electrical Products	\$ 259.0	\$ 213.9	\$ 482.5	\$ 407.4
Tools	14.7	21.6	31.9	43.4
Segment operating earnings	273.7	235.5	514.4	450.8
General Corporate expense	27.3	25.5	45.6	47.1
Total operating earnings	246.4	210.0	468.8	403.7
Income from Belden agreement		3.3		3.3
Interest expense, net	18.3	12.9	33.2	25.8
Income before income taxes	\$ 228.1	\$ 200.4	\$ 435.6	\$ 381.2

The Tools segment operating earnings for the three and six month periods ended June 30, 2008 includes \$7.6 million in severance costs for downsizing an international facility. General corporate expense includes currency

losses primarily related to tax reorganizations and financing the MTL acquisition of \$5.4 million and \$0.3 million in the three and six month periods ended June 30, 2008, respectively. General corporate expense includes \$2.4 million of incremental legal costs in the three and six month periods ended June 30, 2007.

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	Pension Benefits			
	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2007	2008	2007
	2008			
	(in millions)			
Components of net periodic benefit cost:				
Service cost	\$.9	\$ 1.0	\$ 1.9	\$ 2.0
Interest cost	10.6	10.2	21.1	20.4
Expected return on plan assets	(12.5)	(12.8)	(25.0)	(25.6)
Amortization of prior service cost	(0.6)	(0.5)	(1.1)	(1.0)
Recognized actuarial loss	2.4	2.7	4.8	5.3
Net periodic benefit cost	\$ 0.8	\$ 0.6	\$ 1.7	\$ 1.1

	Other Postretirement Benefits			
	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2007	2008	2007
	2008			
	(in millions)			
Components of net periodic benefit cost:				
Interest cost	\$ 1.3	\$ 1.3	\$ 2.6	\$ 2.6
Amortization of prior service cost	(0.5)	(0.5)	(1.0)	(1.0)
Recognized actuarial gain	(0.6)	(0.6)	(1.2)	(1.2)
Net periodic benefit cost	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.4

Note 9. Income Taxes

The effective tax rate was 27.6% for the six months ended June 30, 2008 and 10.5% for the six months ended June 30, 2007. As discussed below, the 2007 second quarter includes a \$63.5 million reduction of income tax expense. Cooper reduced income tax expense by \$4.6 million during the six months ended June 30, 2008 for discrete tax items primarily related to foreign taxes. Excluding the discrete tax items, Cooper's effective tax rate for the six months ended June 30, 2008 and 2007 was 28.7% and 27.2%, respectively. The increase in 2008 is primarily related to increased taxable earnings in 2008 without a corresponding increase in projected tax benefits.

The United States Internal Revenue Service (IRS) challenged Cooper's treatment of gains and interest deductions claimed on its 2000 through 2003 federal income tax returns, relating to transactions involving government securities. If the proposed adjustments were upheld, it would have required Cooper to pay approximately \$93.7 million in taxes plus accrued interest. During the second quarter of 2007, the IRS and Cooper finalized a settlement regarding these transactions.

On February 1, 2007, the IRS issued its examination report for the 2002-2004 tax years. In addition to the finding related to transactions involving government securities discussed above, the IRS challenged Cooper's treatment of certain interest payments made during these years to a subsidiary. If the proposed adjustments were upheld, it would have required Cooper to pay approximately \$140 million of federal

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withholding tax plus accrued interest. On May 2, 2007, the IRS issued a letter to Cooper accepting Cooper's position regarding treatment of these interest payments for the 2002 through 2004 tax years.

As a result of the settlements discussed above, Cooper recognized \$55.7 million of previously unrecognized tax benefits in the 2007 second quarter. A change in rates for the Texas margin tax and other developments in the 2007 second quarter represented the remaining \$7.8 million of income taxes expense reduction.

In June 2008, the German Tax Authorities issued a proposed audit finding related to a 2004 reorganization that was treated as a non-taxable event. Cooper believes that the reorganization was properly reflected on its German income tax returns in accordance with applicable tax laws and regulations in effect during the period involved. Cooper is preparing a response related to the proposed audit finding and will challenge the proposed finding vigorously. While the outcome of the proceedings with the German Tax Authorities cannot be predicted with certainty, management believes that it is more likely than not that its tax position related to the 2004 reorganization will prevail. If the proposed audit finding is upheld, it would require Cooper to pay approximately \$90 million of German tax, which would be available for credit in the United States, plus accrued interest.

Cooper has unrecognized gross tax benefits of \$55.9 million at June 30, 2008. Approximately \$44.2 million of unrecognized tax benefits, if recognized, would favorably impact the effective tax rate. Cooper believes it is reasonably possible that additional tax benefits in the range of approximately \$10 to \$15 million could be recognized during the next 12 months as audits close and statutes expire.

During the second quarter of 2008, the IRS completed their examination of Cooper's 2005 and 2006 Federal income tax returns which had no material impact on the Company's financial statements. The Internal Revenue Service has begun an examination of Cooper's 2007 Federal income tax return. Also, Cooper is under examination by various United States State and Local taxing authorities, as well as various taxing authorities in other countries. Cooper is no longer subject to U.S. Federal income tax examinations by tax authorities for years prior to 2007, and with few exceptions, Cooper is no longer subject to State and Local, or non-U.S. income tax examinations by tax authorities for years before 1999. Cooper fully cooperates with all audits, but defends existing positions vigorously. These audits are in various stages of completion. To provide for potential tax exposures, Cooper maintains a liability for unrecognized tax benefits, which management believes is adequate. The results of future audit assessments, if any, could have a material effect on Cooper's cash flows as these audits are completed.

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	Three Months		Six Months Ended	
	Ended		June 30,	
	2008	2007	2008	2007
	(in millions)			
Basic:				
Net income applicable to common stock	\$ 161.9	\$ 209.2	\$ 315.3	\$ 341.1
Weighted average common shares outstanding	174.3	183.7	175.7	183.4
Diluted:				
Net income applicable to common stock	\$ 161.9	\$ 209.2	\$ 315.3	\$ 341.1
Weighted average common shares outstanding	174.3	183.7	175.7	183.4
Incremental shares from assumed conversions: Options, performance-based stock awards and other employee awards	2.2	3.2	2.2	3.3
Weighted average common shares and common share equivalents	176.5	186.9	177.9	186.7

Options and employee awards are not considered in the calculations if the effect would be antidilutive.

Note 11. Net Income and Other Nonowner Changes in Equity

The components of net income and other nonowner changes in equity, net of related taxes, were as follows:

	Three Months		Six Months Ended	
	Ended		June 30,	
	2008	2007	2008	2007
	(in millions)			
Net income	\$ 161.9	\$ 209.2	\$ 315.3	\$ 341.1
Foreign currency translation gains	14.0	12.9	23.7	11.8
Change in fair value of derivatives	(0.5)	4.2	10.0	8.9
Net income and other nonowner changes in equity	\$ 175.4	\$ 226.3	\$ 349.0	\$ 361.8

Note 12. Fair Value Measurement

Cooper enters into currency forward exchange contracts and commodity futures contracts and swaps to reduce the risks of adverse changes in currency exchange rates and commodity prices. Cooper entered into cross-currency swaps in 2005 to reduce the currency risk associated with an intercompany financing transaction. Cooper does not enter into speculative derivative transactions.

As a result of having sales, purchases and certain intercompany transactions denominated in currencies other than the functional currencies of Cooper's businesses, Cooper is exposed to the effect of currency exchange rate changes on its cash flows and earnings. Cooper enters into currency forward exchange contracts to hedge significant non-functional currency denominated transactions for periods consistent with the terms of the underlying transactions. Contracts generally have maturities that do not

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exceed one year. Cooper enters into commodity swaps to reduce the volatility of price fluctuations on a portion of up to eighteen months of certain forecasted material purchases.

During October 2005, Cooper entered into cross-currency swaps to effectively convert its newly issued \$325 million, 5.25% fixed-rate debt to 272.6 million of 3.55% fixed-rate debt. The \$325 million debt issuance proceeds were swapped to 272.6 million and lent through an intercompany loan to a non-U.S. subsidiary to partially fund repayment of the 300 million Euro bond debt that matured on October 25, 2005. The cross-currency swaps mature in November 2012.

As described in Note 1, Cooper adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques described in SFAS No. 157. Valuation techniques utilized for each individual asset and liability category are referenced in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using multiple techniques. The valuation techniques are as follows:

- (a) Market approach Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
 - (b) Income approach Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models);
 - (c) Cost approach Amount that would be required to replace the service capacity of an asset (replacement cost).
- Assets and liabilities measured at fair value as of June 30, 2008 on a recurring basis are as follows:

(in millions)	Assets Significant other observable inputs (Level 2)	Liabilities Significant other observable inputs (Level 2)	Valuation Technique
Short-term investments	\$51.3	\$	(a)
Currency forward exchange contracts	18.1	(8.3)	(a)
Commodity swaps	7.3	(0.3)	(a)
Cross-currency swaps		(66.8)	(a)

There were no changes in our valuation techniques used to measure asset or liability fair values on a recurring basis in the six months ended June 30, 2008.

Note 13. Discontinued Operations Liability

In October 1998, Cooper sold its Automotive Products business to Federal-Mogul Corporation (Federal-Mogul). These discontinued businesses (including the Abex product line obtained from Pneumo-Abex Corporation (Pneumo) in 1994) were operated through subsidiary companies, and the stock of those subsidiaries was sold to Federal-Mogul pursuant to a Purchase and Sale Agreement dated August 17, 1998 (1998 Agreement). In conjunction with the sale, Federal-Mogul indemnified Cooper for certain liabilities of these subsidiary companies, including liabilities related to the Abex product line and any potential liability

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that Cooper may have to Pneumo pursuant to a 1994 Mutual Guaranty Agreement between Cooper and Pneumo. On October 1, 2001, Federal-Mogul and several of its affiliates filed a Chapter 11 bankruptcy petition. The Bankruptcy Court for the District of Delaware has confirmed Federal-Mogul's plan of reorganization and Federal-Mogul emerged from bankruptcy in December 2007. As part of Federal-Mogul's Plan of Reorganization, Cooper and Federal-Mogul have reached a settlement agreement, subject to approval by the Bankruptcy Court as discussed further below, resolving Federal-Mogul's indemnification obligations to Cooper. As part of its obligation to Pneumo for any asbestos-related claims arising from the Abex product line (Abex Claims), Cooper has rights, confirmed by Pneumo, to significant insurance for such claims. Based on information provided by representatives of Federal-Mogul and recent claims experience, from August 28, 1998 through June 30, 2008, a total of 145,070 Abex Claims were filed, of which 119,329 claims have been resolved leaving 25,741 Abex Claims pending at June 30, 2008. During the six months ended June 30, 2008, 1,536 claims were filed and 5,245 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,100 before insurance. A total of \$138 million was spent on defense costs for the period August 28, 1998 through June 30, 2008. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims. However, insurance recovery is currently at a lower percentage (approximately 30%) due to exhaustion of primary layers of coverage and litigation with certain excess insurers.

2005

In December 2005, Cooper reached an agreement in negotiations with the representatives of Federal-Mogul, its bankruptcy committees and the future claimants (the Representatives) regarding Cooper's participation in Federal Mogul's proposed 524(g) asbestos trust. By participating in this trust, Cooper would resolve its liability for asbestos claims arising from Cooper's former Abex Friction Products business. The proposed settlement agreement was subject to court approval, approval of 75 percent of the current Abex asbestos claimants and certain other approvals. The settlement would have resolved more than 38,000 pending Abex Claims as of December 2005. Future claims would have been resolved through the bankruptcy trust. This December 2005 proposed settlement agreement has been subsequently renegotiated and replaced with a revised agreement in July 2006, as discussed below.

Key terms and aspects of the December 2005 proposed settlement agreement included Cooper agreeing to pay \$130 million in cash into the trust, with \$115 million payable upon Federal-Mogul's emergence from bankruptcy. The remainder would have been due on January 15, 2007, or upon emergence from bankruptcy, if later. Cooper would have received a total of \$37.5 million during the funding period from other parties associated with the Federal-Mogul bankruptcy. Cooper would have further provided the trust 1.4 million shares of the Company's stock upon Federal-Mogul's emergence from bankruptcy.

The December 2005 proposed settlement agreement also provided for further payments by Cooper subject to the amount and timing of insurance proceeds. Cooper had agreed to make 25 annual payments of up to \$20 million each, reduced by certain insurance proceeds received by the trust. In years that the insurance proceeds exceeded \$17 million, Cooper would have been required to contribute \$3 million with the excess insurance proceeds carried over to the next year. The trust would have retained 10 percent of the insurance proceeds for indemnity claims paid by the trust until Cooper's obligation was satisfied and would have retained 15 percent thereafter. The agreement had also provided for Cooper to receive the insurance proceeds related to indemnity and defense costs paid prior to the date a stay of current claims was entered by the Bankruptcy Court. Cooper would also have been required to forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. In addition, the parties involved had agreed to petition the court for a stay on all current claims outstanding.

A critical term of the December 2005 proposed settlement was the issuance of a preliminary injunction staying all pending Abex asbestos claims. At a hearing on January 20, 2006, other parties to the bankruptcy proceedings were unable to satisfy the court's requirements to grant the required preliminary injunction. As a result, the proposed settlement agreement required renegotiation of certain terms. The final determination of whether Cooper would participate in the Federal-Mogul 524(g) trust was unknown. However, Cooper management concluded that, at the date of the filing of its 2005 Form 10-K, the most likely

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outcome in the range of potential outcomes was a revised settlement approximating the December 2005 proposed settlement. Accordingly, the accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy was \$526.3 million at December 31, 2005.

The December 31, 2005 discontinued operations accrual included payments to a 524(g) trust over 25 years that were undiscounted, and included \$215 million of insurance recoveries where insurance in place agreements, settlements or policy recoveries were probable.

2006

On July 7, 2006, Cooper announced a revised agreement had been reached regarding Cooper's participation in Federal-Mogul's 524(g) trust. The revised proposed settlement agreement was subject to court approval and to certain other approvals and has been subsequently modified in December 2007, as discussed below.

Key terms and aspects of the revised proposed settlement agreement included Cooper and another party agreeing to pay \$256 million in cash into the trust on the date Federal-Mogul would emerge from bankruptcy, which included elimination of the previously proposed contribution of 1.4 million common shares to the trust by increasing the cash contribution. Cooper's net contribution into the trust is \$248.5 million.

As in the December 2005 agreement, Cooper had agreed to make 25 annual payments of up to \$20 million each to the trust with such payments being reduced by insurance proceeds. The minimum annual payment of \$3 million in the December 2005 agreement was eliminated. However, Cooper has also agreed to make advances, beginning in 2015 through 2021, in the event the trust is unable to pay outstanding qualified claims at 100 percent of the value provided for in the trust agreement. In the event that advances are made by Cooper, they will accrue interest at 5 percent per annum, and will be repaid in years where excess funds are available in the trust or credited against the future year annual payments. The maximum advances are \$36.6 million.

Under the revised agreement, Cooper would pay all defense costs through the date Federal-Mogul would emerge from bankruptcy and would be reimbursed for indemnity payments to the extent such payments are eligible for payment from the trust. Cooper would retain the rights to receive the insurance proceeds related to indemnity and defense costs paid prior to the date Federal-Mogul would emerge from bankruptcy. For claims paid by the trust, the trust would have retained 10 percent of any reimbursed insurance proceeds for the first 25 years and thereafter would have retained 15 percent.

As in the December 2005 proposed agreement, Cooper would forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. However, under the revised proposed agreement, which was subject to court approval, in the event that Cooper's participation in the Federal-Mogul 524(g) trust was not approved for any reason, or if Cooper elects not to participate or to pursue participation in the trust, Cooper and another party would receive a cash payment of \$140 million (\$138 million would be paid to Cooper) on the date Federal-Mogul emerged from bankruptcy and 20 percent of any insurance policy settlements related to the former Wagner business purchased by Federal-Mogul in 1998. If Cooper participates in the trust, it would receive 12 percent of any Wagner insurance settlements.

Cooper recorded a \$20.3 million after-tax discontinued operations charge, net of an \$11.4 million income tax benefit, in the second quarter of 2006 to reflect the revised terms of the agreement.

The revised proposed settlement agreement was incorporated into Federal-Mogul's Fourth Amended Joint Plan of Reorganization filed on November 21, 2006.

2007

On February 2, 2007, the U.S. Bankruptcy Court for the District of Delaware approved the adequacy of Federal-Mogul's Supplemental Disclosure Statement describing the Fourth Amended Joint Plan of Reorganization. The Court also approved the Voting Procedures and ordered that the voting period would

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expire on April 6, 2007. At a hearing on April 13, Federal-Mogul announced that the Abex settlement had received a favorable vote of approximately 94%, well in excess of the required vote. In addition, any objections to the Fourth Amended Plan were filed with the Court by April 24, 2007 and hearings on confirmation of the Plan were held the week of July 9th. The Court also held hearings on October 1 and 2, 2007 for final briefs and hearings. At the conclusion of these hearings, the Court neither approved nor rejected the revised proposed settlement agreement.

The U.S. Bankruptcy Court for the District of Delaware confirmed Federal-Mogul's plan of reorganization on November 8, 2007, and the U.S. District Court for the District of Delaware affirmed the Bankruptcy Court's order on November 14, 2007. As part of its ruling, the Bankruptcy Court approved the settlement between Cooper and Federal-Mogul, which would require payment of \$138 million to Cooper in the event Cooper's participation in the Federal-Mogul 524(g) trust is not approved for any reason, or if Cooper elects not to participate or to pursue participation in the trust. The Bankruptcy Court stated that it would consider approving Cooper's participation in the Federal-Mogul 524(g) trust at a later time, and that its order confirming the plan of reorganization and approving the settlement between Cooper and Federal-Mogul does not preclude later approval of Cooper's participation in the 524(g) trust. Accordingly, in an effort to continue working towards approval of Cooper's participation in the trust and to address certain legal issues identified by the Court, Cooper, Pneumo-Abex, Federal-Mogul, and other plan supporters filed the Modified Plan A Settlement Documents on December 13, 2007. The Modified Plan A Settlement Documents are the same in all material respects as the settlement documents filed with the Bankruptcy Court on July 7, 2006, except that the Modified Plan A Settlement Documents remove certain provisions relating to insurance to which various insurers and others had objected, and require a final, non-appealable order before Cooper is obligated to contribute to the asbestos claims settlement trust. If the Bankruptcy Court approves the modified settlement and that settlement is implemented, Cooper, through Pneumo-Abex LLC, will continue to have access to Abex insurance policies, but the settlement no longer provides for the retention of insurance proceeds by the trust.

2008

During the first quarter of 2008, the Bankruptcy Court concluded hearings on Plan A. In the second quarter of 2008, the Representatives filed a brief with the Court requesting a preliminary injunction staying Abex asbestos claims. On June 2, 2008, the Bankruptcy Court denied the Representatives' request. The Bankruptcy Court also stated that it was giving full consideration of Plan A and was hopeful that it would be in a position of ruling on Plan A in September 2008. However, there can be no assurance that the Court will rule on Plan A in that timeframe.

The accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy and a progression of the activity assuming resolution through participation in the Federal-Mogul 524(g) trust is presented in the following table.

	Three Months		Six Months Ended	
	Ended		Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(in millions)			
Accrual at beginning of period	\$ 519.1	\$ 559.5	\$ 509.1	\$ 529.6
Indemnity and defense payments	(6.7)	(15.8)	(11.9)	(24.6)
Insurance recoveries	9.6		25.4	39.3
Other	(0.7)	(0.7)	(1.3)	(1.3)
Accrual at end of period	\$ 521.3	\$ 543.0	\$ 521.3	\$ 543.0

The discontinued operations accrual includes an initial payment of \$248.5 million in cash to the Federal-Mogul 524(g) trust with additional annual payments of up to \$20 million each due over 25 years, and the insurance recoveries include recoveries where insurance-in-place agreements, settlements or policy recoveries are probable. Cooper, through Pneumo-Abex LLC, has access to Abex insurance policies with remaining limits on policies with solvent insurers in excess of \$750 million. Cooper included insurance

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recoveries of approximately \$205 million and \$230 million in the discontinued operations accrual as of June 30, 2008 and December 31, 2007, respectively. Cooper believes that it is likely that additional insurance recoveries will be recorded in the future as new insurance-in-place agreements are consummated and settlements with insurance carriers are completed. However, extensive litigation with the insurance carriers may be required to receive those additional recoveries.

Although the payments related to the settlement could extend to 25 years and the collection of insurance proceeds could extend beyond 25 years, the liability and insurance are not discounted on Cooper's balance sheet as the amount of the actual annual payments is not reasonably predictable.

From a cash flow perspective, Cooper management continues to believe that a settlement on the terms of the Modified Plan A Settlement Documents would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. The settlement agreement remains subject to Bankruptcy Court approval and other matters. At this time, the exact manner in which this issue will be resolved is not known.

If Cooper is unable to reach a settlement to participate in the Federal-Mogul 524(g) trust, the accrual for discontinued operations may have to be adjusted to reflect the estimated liability and related insurance recoveries through the tort system. There are numerous assumptions that are required to project the estimated liability and related insurance recoveries in this scenario and Cooper is currently assessing the analysis to reasonably estimate such amounts. Cooper believes that such net amounts are unlikely to exceed the current discontinued operations accrual; however, there can be no such assurance until the analysis is completed.

Note 14. Consolidating Financial Information

Cooper and certain of its principal operating subsidiaries (the Guarantors) fully and unconditionally guarantee, on a joint and several basis, the registered debt securities of Cooper Industries, LLC and Cooper US, Inc. The following condensed consolidating financial information is included so that separate financial statements of Cooper Industries, LLC, Cooper US, Inc. or the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating financial statements present investments in subsidiaries using the equity method of accounting. Intercompany investments in the Class A and Class B common shares are accounted for using the cost method.

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Consolidating Income Statements
Three Months Ended June 30, 2008
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 1,004.1	\$ 822.7	\$ (102.5)	\$ 1,724.3
Cost of sales	0.1	(0.1)	1.9	705.2	558.9	(102.5)	1,163.5
Selling and administrative expenses	3.3	3.5	20.3	142.5	149.9	(5.1)	314.4
Interest expense, net		4.6	13.0		0.7		18.3
Equity in earnings of subsidiaries, net of tax	205.2	7.6	124.8	33.9	129.9	(501.4)	
Intercompany income (expense)	(10.1)	(10.2)	26.9	(38.3)	66.5	(34.8)	
Income (loss) before income taxes	191.7	(10.6)	116.5	152.0	309.6	(531.1)	228.1
Income tax expense (benefit)		(6.8)	(13.3)	47.2	39.1		66.2
Net income (loss)	\$ 191.7	\$ (3.8)	\$ 129.8	\$ 104.8	\$ 270.5	\$ (531.1)	\$ 161.9

Consolidating Income Statements
Three Months Ended June 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 943.1	\$ 582.8	\$ (62.2)	\$ 1,463.7
Cost of sales			0.5	658.5	387.8	(62.2)	984.6
Selling and administrative expenses	3.0	4.2	18.8	137.2	105.9		269.1
Income from Belden agreement					3.3		3.3
Interest expense, net	(0.4)	11.2	3.7		(1.6)		12.9
Equity in earnings of subsidiaries, net of tax	248.4	10.2	111.0	24.9	177.0	(571.5)	
Intercompany income (expense)	(8.0)	(4.5)	13.3	(44.4)	72.4	(28.8)	
Income (loss) before income taxes	237.8	(9.7)	101.3	127.9	343.4	(600.3)	200.4
Income tax expense (benefit)		(7.5)	(75.7)	38.0	36.4		(8.8)

Net income (loss)	\$ 237.8	\$ (2.2)	\$ 177.0	\$ 89.9	\$ 307.0	\$ (600.3)	\$ 209.2
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Consolidating Income Statements
Six Months Ended June 30, 2008
(in millions)

	Cooper	Cooper	Cooper	Guarantors	Other	Consolidating	Total
	Industries,	US,	US,		Subsidiaries	Adjustments	
	LLC	Inc.	Inc.				
	Cooper	LLC	Inc.	Guarantors	Other	Consolidating	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues				\$ 1,925.1	\$ 1,532.3	\$ (187.0)	\$ 3,270.4
Cost of sales	(0.1)	(0.2)	3.1	1,337.2	1,032.7	(187.0)	2,185.7
Selling and administrative expenses	5.5	6.0	43.1	287.4	283.1	(9.2)	615.9
Interest expense, net		10.2	24.7		(1.7)		33.2
Equity in earnings of subsidiaries, net of tax	399.5	12.6	231.3	65.2	244.7	(953.3)	
Intercompany income (expense)	(19.5)	(19.4)	58.6	(82.6)	131.4	(68.5)	
Income (loss) before income taxes	374.6	(22.8)	219.0	283.1	594.3	(1,012.6)	435.6
Income tax expense (benefit)		(13.3)	(25.6)	88.3	70.9		120.3
Net income (loss)	\$ 374.6	\$ (9.5)	\$ 244.6	\$ 194.8	\$ 523.4	\$ (1,012.6)	\$ 315.3

Six Months Ended June 30, 2007
(in millions)

	Cooper	Cooper	Cooper	Guarantors	Other	Consolidating	Total
	Industries,	US,	US,		Subsidiaries	Adjustments	
	LLC	Inc.	Inc.				
	Cooper	LLC	Inc.	Guarantors	Other	Consolidating	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues				\$ 1,861.6	\$ 1,119.2	\$ (123.1)	\$ 2,857.7
Cost of sales		0.1	0.8	1,303.6	748.1	(123.1)	1,929.5
Selling and administrative expenses	5.4	7.7	34.5	270.5	206.4		524.5
Income from Belden agreement					3.3		3.3
Interest expense, net	(1.0)	22.4	7.4		(3.0)		25.8
Equity in earnings of subsidiaries, net of tax	417.6	21.0	206.7	45.1	279.9	(970.3)	
Intercompany income (expense)	(14.9)	(8.8)	28.4	(83.8)	136.4	(57.3)	
Income (loss) before income taxes	398.3	(18.0)	192.4	248.8	587.3	(1,027.6)	381.2
		(14.8)	(87.4)	76.8	65.5		40.1

Income tax expense
(benefit)

Net income (loss)	\$ 398.3	\$ (3.2)	\$ 279.8	\$ 172.0	\$ 521.8	\$ (1,027.6)	\$ 341.1
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Consolidating Balance Sheets
June 30, 2008
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$	\$	\$ 17.5	\$ 4.5	\$ 132.7	\$	\$ 154.7
Investments			51.3				51.3
Receivables			0.1	600.5	630.3		1,230.9
Inventories				383.5	366.0		749.5
Deferred income taxes and other current assets		115.9	48.2	25.6	80.3		270.0
Total current assets		115.9	117.1	1,014.1	1,209.3		2,456.4
Property, plant and equipment, less accumulated depreciation			59.6	324.5	384.4		768.5
Goodwill				1,261.9	1,479.9		2,741.8
Investment in subsidiaries	5,595.6	626.5	5,028.9	1,138.5	4,353.7	(16,743.2)	
Investment in parent			2,981.4		312.7	(3,294.1)	
Intercompany accounts receivable		777.1		1,347.2	885.2	(3,009.5)	
Intercompany notes receivable	93.7	25.8	1,353.5	0.3	4,541.3	(6,014.6)	
Other noncurrent assets		21.8	3.8	58.4	298.0		382.0
Total assets	\$ 5,689.3	\$ 1,567.1	\$ 9,544.3	\$ 5,144.9	\$ 13,464.5	\$ (29,061.4)	\$ 6,348.7
Short-term debt	\$	\$	\$ 89.8	\$	\$ 24.5	\$	\$ 114.3
Accounts payable	43.8	2.8	18.8	240.4	267.8		573.6
Accrued liabilities	6.5	37.8	71.2	231.0	218.9		565.4
Current discontinued operations liability		191.3					191.3
Current maturities of long-term debt					0.1		0.1
Total current liabilities	50.3	231.9	179.8	471.4	511.3		1,444.7

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Long-term debt		277.2	921.9	8.0	0.4		1,207.5
Intercompany accounts payable	26.4		2,983.1			(3,009.5)	
Intercompany notes payable	1,052.6	804.6	1,806.9	1,742.0	608.5	(6,014.6)	
Long-term discontinued operations liability		330.0					330.0
Other long-term liabilities		(91.0)	120.9	181.2	292.5		503.6
Total liabilities	1,129.3	1,552.7	6,012.6	2,402.6	1,412.7	(9,024.1)	3,485.8
Class A common stock	2.0					(0.3)	1.7
Class B common stock	1.1					(1.1)	
Subsidiary common stock			170.0		371.4	(541.4)	
Capital in excess of par value	3,337.2		747.2	1,448.1	7,780.0	(13,312.5)	
Retained earnings	1,133.5	85.1	2,704.0	1,263.4	3,885.0	(6,163.7)	2,907.3
Accumulated other non-owner changes in equity	86.2	(70.7)	(89.5)	30.8	15.4	(18.3)	(46.1)
Total shareholders equity	4,560.0	14.4	3,531.7	2,742.3	12,051.8	(20,037.3)	2,862.9
Total liabilities and shareholders equity	\$ 5,689.3	\$ 1,567.1	\$ 9,544.3	\$ 5,144.9	\$ 13,464.5	\$ (29,061.4)	\$ 6,348.7

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Consolidating Balance Sheets
December 31, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$ 1.3	\$	\$ 23.1	\$ (1.1)	\$ 209.5	\$	\$ 232.8
Investments			93.7				93.7
Receivables	1.1		0.3	539.3	507.9		1,048.6
Inventories				346.2	297.5		643.7
Deferred income taxes and other current assets	0.7	119.2	64.3	44.8	55.2		284.2
Total current assets	3.1	119.2	181.4	929.2	1,070.1		2,303.0
Restricted cash					290.1		290.1
Property, plant and equipment, less accumulated depreciation			63.9	326.9	329.0		719.8
Goodwill				1,249.7	1,290.6		2,540.3
Investment in subsidiaries	5,158.1	620.3	4,779.5	1,030.8	3,785.5	(15,374.2)	
Investment in parent			2,872.2		312.7	(3,184.9)	
Intercompany accounts receivable		787.4		1,337.0	737.7	(2,862.1)	
Intercompany notes receivable	162.4	25.8	1,155.2	0.3	4,422.1	(5,765.8)	
Other noncurrent assets		14.5	8.0	48.9	208.9		280.3
Total assets	\$ 5,323.6	\$ 1,567.2	\$ 9,060.2	\$ 4,922.8	\$ 12,446.7	\$ (27,187.0)	\$ 6,133.5
Short-term debt	\$	\$	\$ 228.7	\$	\$ 27.4	\$	\$ 256.1
Accounts payable	37.8	5.1	19.1	218.2	252.9		533.1
Accrued liabilities	6.2	39.0	72.2	261.5	187.8		566.7
Current discontinued operations liability		179.1					179.1
Current maturities of long-term debt		100.1					100.1
Total current liabilities	44.0	323.3	320.0	479.7	468.1		1,635.1

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Long-term debt		277.2	624.1	8.0	0.6		909.9
Intercompany accounts payable	34.8		2,826.1			(2,860.9)	
Intercompany notes payable	815.0	692.6	1,869.0	1,741.8	647.2	(5,765.6)	
Long-term discontinued operations liability		330.0					330.0
Other long-term Liabilities		(86.1)	155.6	187.8	159.3		416.6
Total liabilities	893.8	1,537.0	5,794.8	2,417.3	1,275.2	(8,626.5)	3,291.6
Class A common stock	2.1					(0.3)	1.8
Class B common stock	1.1					(1.1)	
Subsidiary common stock			170.0		371.4	(541.4)	
Capital in excess of par value	3,458.5		743.7	1,427.0	7,496.1	(13,039.6)	85.7
Retained earnings	916.4	116.2	2,468.7	1,055.3	3,335.9	(5,057.4)	2,835.1
Accumulated other non-owner changes in equity	51.7	(86.0)	(117.0)	23.2	(31.9)	79.3	(80.7)
Total shareholders equity	4,429.8	30.2	3,265.4	2,505.5	11,171.5	(18,560.5)	2,841.9
Total liabilities and shareholders equity	\$ 5,323.6	\$ 1,567.2	\$ 9,060.2	\$ 4,922.8	\$ 12,446.7	\$ (27,187.0)	\$ 6,133.5

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Consolidating Statements of Cash Flows
Six Months Ended June 30, 2008
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (21.6)	\$ (22.4)	\$ (7.7)	\$ 29.5	\$ 287.5	\$	\$ 265.3
Cash flows from investing activities:							
Proceeds from short-term investments			41.3				41.3
Proceeds from cash restricted for business acquisitions					290.1		290.1
Capital expenditures			(6.5)	(22.9)	(28.5)		(57.9)
Cash paid for acquired businesses					(269.6)		(269.6)
Investments in affiliates			(13.0)	(3.1)		16.1	
Loans to affiliates	(184.4)		(404.1)		(581.2)	1,169.7	
Repayments of loans from affiliates	253.1		234.8		408.5	(896.4)	
Dividends from affiliates			69.0			(69.0)	
Proceeds from sales of property, plant and equipment and other				0.3	0.7		1.0
Net cash provided by (used in) investing activities	68.7		(78.5)	(25.7)	(180.0)	220.4	4.9
Cash flows from financing activities:							
Proceeds from issuance of debt			297.6				297.6
Debt issuance costs			(0.5)				(0.5)
Proceeds from debt derivatives			0.5				0.5
Repayments of debt		(100.0)	(138.9)		(60.2)		(299.1)
Borrowings from affiliates	838.0	112.0	31.4	3.1	185.2	(1,169.7)	
Repayments of loans to affiliates	(601.3)		(97.2)	(3.0)	(194.9)	896.4	

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Other intercompany financing activities	4.5	10.4	109.4	1.7	(135.2)	9.2	
Dividends	(82.8)						(82.8)
Dividends paid to affiliates	(69.0)					69.0	
Purchase of common shares	(147.0)		(135.9)				(282.9)
Excess tax benefits from stock options and awards			3.4				3.4
Issuance of stock					16.1	(16.1)	
Proceeds from exercise of stock options	9.2		10.8			(9.2)	10.8
Net cash provided by (used in) financing activities	(48.4)	22.4	80.6	1.8	(189.0)	(220.4)	(353.0)
Effect of exchange rate changes on cash and cash equivalents					4.7		4.7
Increase (decrease) in cash and cash equivalents	(1.3)		(5.6)	5.6	(76.8)		(78.1)
Cash and cash equivalents, beginning of period	1.3		23.1	(1.1)	209.5		232.8
Cash and cash equivalents, end of period	\$	\$	\$ 17.5	\$ 4.5	\$ 132.7	\$	\$ 154.7

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Consolidating Statements of Cash Flows
Six Months Ended June 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (10.1)	\$ (21.9)	\$ 42.1	\$ 29.6	\$ 169.6	\$	\$ 209.3
Cash flows from investing activities:							
Capital expenditures			(15.1)	(25.2)	(15.8)		(56.1)
Cash paid for acquired businesses				(75.2)	(95.3)		(170.5)
Investments in affiliates			(44.3)			44.3	
Loans to affiliates	(60.0)		(22.4)		(528.9)	611.3	
Repayments of loans from affiliates	151.8				408.2	(560.0)	
Dividends from affiliates			52.8	15.9	4.4	(73.1)	
Proceeds from sale of property, plant and equipment and other				0.4	0.4		0.8
Net cash provided by (used in) investing activities	91.8		(29.0)	(84.1)	(227.0)	22.5	(225.8)
Cash flows from financing activities:							
Proceeds from issuance of debt			300.0		6.7		306.7
Debt issuance costs			(2.7)				(2.7)
Proceeds from debt derivatives			10.0				10.0
Repayments of debt Borrowings from affiliates	385.2	22.4	203.7		(3.0)	(611.3)	
Repayments of loans to affiliates	(289.4)		(268.9)		(1.7)	560.0	
Other intercompany financing Activities	58.3	(0.5)	(126.7)	58.1	10.8		
Dividends	(77.9)						(77.9)
Dividends paid to affiliates	(57.3)				(15.8)	73.1	
	1.4		(75.4)				(74.0)

Purchase of common shares							
Excess tax benefits from stock options and awards			20.8				20.8
Issuance of stock					44.3	(44.3)	
Proceeds from exercise of stock options			49.5				49.5
Net cash provided by (used in) financing activities	20.3	21.9	110.3	58.1	41.3	(22.5)	229.4
Effect of exchange rate changes on cash and cash equivalents					3.6		3.6
Increase (decrease) in cash and cash equivalents	102.0		123.4	3.6	(12.5)		216.5
Cash and cash equivalents, beginning of period	11.5		204.9	(2.8)	209.9		423.5
Cash and cash equivalents, end of period	\$ 113.5	\$	\$ 328.3	\$ 0.8	\$ 197.4	\$	\$ 640.0

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations**Three Months Ended June 30, 2008 Compared With Three Months Ended June 30, 2007**

Net income for the second quarter of 2008 was \$161.9 million on revenues of \$1,724.3 million compared with 2007 second quarter net income of \$209.2 million on revenues of \$1,463.7 million. 2008 second quarter diluted earnings per share were \$.92 compared to \$1.12 in the 2007 second quarter. During the second quarter 2008, severance costs associated with the downsizing of a Tools Segment international facility and currency related losses decreased earnings per share by \$.05 per share. The second quarter 2007 results included tax benefits from settlements and enacted tax rate changes and income from the Belden agreement partially offset by incremental legal costs that increased 2007 reported earnings per share by \$.34 per share.

Revenues:

Revenues for the second quarter of 2008 increased 18% compared to the second quarter of 2007. The impact of acquisitions and currency translation increased reported revenues by approximately 11% for the quarter.

Electrical Products segment revenues increased 19% compared to the second quarter of 2007. The impact of acquisitions increased revenues by nearly 9% for the quarter and favorable currency translation increased reported revenues over 2% for the quarter. The increase in revenues for Electrical Products segment reflects continued strength in the industrial, utility and energy markets with international market initiatives providing further growth in the second quarter of 2008. The continued softness in the U.S. residential markets and slower growth in certain other U.S. markets partially offset the segment's overall revenue growth.

Tools segment revenues for the second quarter of 2008 increased 12% from the second quarter of 2007. Favorable currency translation increased revenues by approximately 6% over the second quarter of 2007. Higher revenues from Aerospace demand, new customers and new products more than offset the impact of soft motor vehicle markets and soft retail sales providing approximately 6% growth for the second quarter revenues over prior year comparable results.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 67.5% for the second quarter of 2008 compared to 67.3% for the comparable 2007 quarter. The increase in the cost of sales was primarily related to a \$7.6 million charge incurred for the downsizing of a Tools Segment international facility. Execution on productivity improvement initiatives and price realization more than offset increased material, energy and other cost inflation.

Electrical Products segment cost of sales, as a percentage of revenues, was 66.4% for the second quarter of 2008 compared to 67.1% for the second quarter of 2007. The decrease in cost of sales as a percentage of revenues in comparison to the prior year second quarter was due to benefits realized through productivity initiatives, impact of pricing actions and leverage of increased volumes. Tools segment cost of sales, as a percentage of revenues, was 74.2% for the second quarter of 2008 compared to 68.6% for the second quarter of 2007. The increase in the cost of sales percentage was driven by recognition of severance costs totaling \$7.6 million associated with the downsizing of an international operation and material cost increases which offset benefits from productivity initiatives. The downsizing and related cash payments will be completed in 2008.

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Selling and administrative expenses, as a percentage of revenues, for the second quarter of 2008 was 18.2% compared to 18.4% for the second quarter of 2007. The decrease in percentage is reflective of the higher revenue levels and cost reduction actions taken in 2008 partially offset by higher selling and administrative expenses for acquired companies and currency related losses.

Electrical Products segment selling and administrative expenses, as a percentage of revenues for the second quarter of 2008, were 16.5% compared to 16.1% for the second quarter of 2007. The increase in percentage reflects the higher overall percentages seen in the newly acquired operations, investment in resources to support international growth offset by leverage on higher revenues and cost control activities implemented in 2008.

Tools segment selling and administrative expenses, as a percentage of revenues for the second quarter of 2008, were 19.0% compared to 20.1% for the second quarter of 2007. The decrease in selling and administrative expenses, as a percentage of revenues, was driven by higher revenues and cost control activities implemented in 2008.

Net interest expense in the second quarter of 2008 increased \$5.4 million from the 2007 second quarter, primarily as a result of the March 27, 2008 issuance of \$300 million of senior unsecured notes. Average debt balances were \$1.43 billion and \$1.07 billion and average interest rates were 5.5% and 5.8% for the second quarter of 2008 and 2007, respectively.

Operating Earnings:

Electrical Products segment second quarter 2008 operating earnings increased 21.1% to \$259.0 million from \$213.9 million for the same quarter of last year. The increase resulted from higher revenues, favorable product mix, incremental earnings from acquisitions, execution on productivity improvement initiatives, and pricing actions.

Tools segment second quarter 2008 operating earnings were \$14.7 million compared to \$21.6 million in the second quarter of 2007. The decrease resulted from the \$7.6 million of costs associated with the downsizing of an international facility and higher material costs which were partially offset by higher revenues and productivity initiatives.

General Corporate expense increased \$1.8 million to \$27.3 million for the second quarter of 2008 compared to \$25.5 million during the same period of 2007. General corporate expense includes currency related losses of \$5.4 million in 2008 and \$2.4 million of incremental legal costs in 2007. Absent these items, general corporate expense decreased \$1.2 million primarily from cost reduction initiatives offset partially by inflation.

Income Taxes:

The effective tax rate was 29.0% for the second quarter of 2008 and (4.4%) for the second quarter of 2007. The increase is related to a \$63.5 million reduction to income tax expense in the second quarter of 2007. During the second quarter of 2007 Cooper finalized settlements with the Internal Revenue Service related to the 2000 through 2004 tax years. Previously unrecognized tax benefits of \$55.7 million were therefore recognized. A change in rates for the Texas margin tax and other developments in the second quarter of 2007 represented the remaining \$7.8 million of income tax expense reduction. Excluding the reduction, Cooper's second quarter 2007 effective tax rate would have been 27.3%. The increase in Cooper's second quarter 2008 effective tax rate compared to the same period in 2007, adjusted for the aforementioned discrete items, is primarily related to increased taxable earnings in 2008 without a corresponding increase in projected tax benefits.

Table of Contents**Six Months Ended June 30, 2008 Compared With Six Months Ended June 30, 2007**

Net income for the first six months of 2008 was \$315.3 million on revenues of \$3,270.4 million compared with 2007 first half net income of \$341.1 million on revenues of \$2,857.7 million. First half diluted earnings per share was \$1.77 in 2008, compared to \$1.83 in 2007. First half 2007 diluted earnings per share included \$63.5 million of income tax adjustments that increased reported earnings per share by \$.34 per share.

Revenues:

Revenues for the first six months of 2008 increased 14% compared to the first six months of 2007. The impact of acquisitions and currency translation increased revenues by approximately 10%.

Electrical Products segment revenues for the first six months of 2008 increased 16% compared to the first half of 2007. The impact of acquisitions increased revenue by slightly more than 8% and currency translation had approximately a 2% favorable effect on revenues in the first half of the year. Sales growth was a result of strong demand from the utility and industrial markets and international expansion. The soft U.S. residential markets and slower growth in certain other U.S. markets partially offset these gains.

Tools segment revenues for the first six months of 2008 increased 6% compared to the first half of 2007. Favorable currency translation impact on revenues for the first six months of 2008 accounted for all of the growth. Revenue growth in industrial markets was offset by weak demand for U.S. retail products.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 66.8% for the first six months of 2008 compared to 67.5% for the comparable 2007 period. The decrease in the cost of sales percentage was primarily a result of fixed cost leverage on higher volume, favorable sales mix, pricing actions and benefits from productivity improvement initiatives partially offset by a \$7.6 million charge for downsizing a Tools segment international facility and material and other cost inflation.

Electrical Products segment cost of sales, as a percentage of revenues, was 66.1% for the first six months of 2008 compared to 67.5% for the first half of 2007. The decrease in the cost of sales percentage was primarily the result of productivity initiatives, favorable sales mix, production leverage on higher volume, and pricing actions partially offset by material and other cost inflation.

Tools segment cost of sales, as a percentage of revenues, was 71.8% for the first half of 2008 compared to 67.9% for the same period of 2007. The increase in cost of sales percentage reflects the \$7.6 million impact of severance costs associated with the downsizing of an international facility, increased material costs, lower production volumes in selected operations offset by operating efficiency gains from productivity improvements and cost control measures.

Selling and administrative expenses, as a percentage of revenues, for the first six months of 2008 were 18.8% compared to 18.4% for the first half of 2007. The increase is due to impact of acquisitions, investment in international growth offset by leverage on higher sales and cost reductions from productivity initiatives.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the first six months of 2008 were 17.1% compared to 16.1% for the first half of 2007. The increase in selling and administrative expenses percentage is primarily due to the impact of acquisitions which generally have a higher than average selling and administrative costs relative to sales offset by volume leverage and productivity initiatives.

Tools segment selling and administrative expenses, as a percentage of revenues, for the first six months of 2008 were 20.3% compared to 20.5% for the first six months of 2007. The decrease in the selling

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and administrative expenses percentage is primarily due to leverage on higher revenues and cost productivity initiatives.

Net interest expense for the first six months of 2008 increased \$7.4 million from the 2007 first six months primarily as a result of higher average debt balances. Average debt balances were \$1.41 billion and \$1.05 billion and average interest rates were 5.3% and 5.8% for the first six months of 2008 and 2007, respectively.

Operating Earnings:

Electrical Products segment first half 2008 operating earnings increased 18% to \$482.5 million from \$407.4 million for the same period of last year. The increase was primarily due to sales volume leverage, pricing actions, favorable sales mix, productivity initiatives and incremental earnings from acquisitions.

Tools segment first half 2008 operating earnings decreased 26% to \$31.9 million compared to \$43.4 million in the same period of 2007. The decrease reflects the \$7.6 million in costs associated with the downsizing of an international facility and material cost increases offset partially by cost productivity initiatives.

General Corporate expense decreased \$1.5 million to \$45.6 million during the first six months of 2008 compared to \$47.1 million during the same period of 2007. This decrease primarily related to incremental legal costs in 2007 of \$2.4 million.

Income Taxes:

The effective tax rate was 27.6% for the six months ended June 30, 2008 and 10.5% for the six months ended June 30, 2007. The rate increase is primarily related to a 2007 second quarter \$63.5 million reduction of income tax expense. Cooper finalized settlements with the Internal Revenue Service related to the 2000 through 2004 tax years in the 2007 second quarter. Previously unrecognized tax benefits of \$55.7 million were therefore recognized in the quarter. A change in rates for the Texas margin tax and other developments in the 2007 second quarter represented the remaining \$7.8 million of income tax expense reduction. Excluding the reduction, Cooper's effective tax rate for the six months ended June 30, 2007 was 27.2%. Cooper reduced income tax expense by \$4.6 million during the six months ended June 30, 2008 for discrete tax items primarily related to foreign taxes. Excluding the impacts of the discrete items, Cooper's effective tax rate for the six months ended June 30, 2008 would have been 28.7%. The increase in Cooper's 2008 effective tax rate compared to 2007, adjusted for the aforementioned discrete items, is primarily related to increased taxable earnings in 2008 without a corresponding increase in projected tax benefits.

Liquidity and Capital Resources***Liquidity:***

Cooper's operating working capital (defined as receivables and inventories less accounts payable) increased \$247.6 million during the first six months of 2008. A \$182.3 million increase in receivables and a \$105.8 million increase in inventories, partially offset by a \$40.5 million increase in accounts payable, were driven by increased sales, currency translation and the impact from acquisitions completed in the 2008 first quarter. The increase in inventories was partially offset by a \$6.6 million increase in the allowance for excess and obsolete inventory. Operating working capital turnover (defined as annualized revenues divided by average quarterly operating working capital) for the first six months of 2008 of 5.1 turns improved from the 5.0 turns reported for the same period of 2007.

Cash provided by operating activities was \$265.3 million during the first six months of 2008. This cash, plus \$297.6 million of net proceeds from issuances of debt, \$290.1 million of proceeds from cash previously restricted, \$41.3 million from redemption of short-term investments, \$10.8 million of cash received from stock option exercises and an additional \$78.1 million of cash and cash equivalents, was

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primarily used to fund capital expenditures of \$57.9 million, acquisitions of \$269.6 million, dividends of \$82.8 million, debt repayments of \$299.1 million and share purchases of \$282.9 million.

Cash provided by operating activities was \$209.3 million for the first six months of 2007. This cash, plus \$314.0 million of net proceeds from debt issuances and \$49.5 million of cash received from employee stock option exercise activity were primarily used to fund capital expenditures of \$56.1 million, acquisitions of \$170.5 million, dividends of \$77.9 million, debt repayments of \$3.0 million and share purchases of \$74.0 million.

Cooper currently anticipates that it will annually generate in excess of \$400 million in cash flow available for acquisitions, debt repayments and common stock repurchases.

As discussed in Note 13 of Notes to the Consolidated Financial Statements, Cooper has reached a revised agreement with the Representatives of Federal-Mogul, its bankruptcy committees and the future claimants regarding settlement of Cooper's contingent liabilities related to the Automotive Products sale to Federal-Mogul. Cooper anticipates that any settlement would be funded from operating cash flows, existing cash, and commercial paper proceeds.

Capital Resources:

Cooper targets a 30% to 40% debt-to-total capitalization ratio. Excess cash flows are utilized to fund acquisitions or to purchase shares of Cooper common stock. Cooper's debt-to-total capitalization ratio was 31.6% at June 30, 2008, 30.8% at December 31, 2007 and 32.3% at June 30, 2007.

At June 30, 2008 and December 31, 2007, Cooper had cash and cash equivalents of \$154.7 million and \$232.8 million, respectively and short-term investments of \$51.3 million and \$93.7 million, respectively. At June 30, 2008 and December 31, 2007, Cooper had short-term debt of \$114.3 million and \$256.1 million, respectively, including commercial paper of \$89.8 million and \$228.7 million, respectively. In connection with the acquisition of MTL in February 2008, Cooper assumed short-term debt of \$47.8 million which has subsequently been repaid and issued short-term loan notes of \$8.8 million. At June 30, 2008, Cooper has \$8.8 million of loan notes related to MTL included in short-term debt.

Cooper's practice is to back up its short-term debt balance with a combination of cash, cash equivalents, and committed credit facilities. At June 30, 2008, Cooper had \$553 million of committed credit facilities, \$53 million of which matures in March 2009 and \$500 million of which matures in November 2009. Short-term debt, to the extent not backed up by cash or short-term investments, reduces the amount of additional liquidity provided by the committed credit facilities.

The credit facility agreements are not subject to termination based on a decrease in Cooper's debt ratings or a material adverse change clause. The principal financial covenants in the agreements limit Cooper's debt-to-total capitalization ratio to 60% and require Cooper to maintain a minimum earnings before interest expense, income taxes, depreciation and amortization to interest ratio of 3 to 1. Cooper is in compliance with all covenants set forth in the credit facility agreements.

Cooper's access to the commercial paper market could be adversely affected by a change in the credit ratings assigned to its commercial paper. Should Cooper's access to the commercial paper market be adversely affected due to a change in its credit ratings, Cooper would rely on a combination of available cash and its committed credit facilities to provide short-term funding. The committed credit facilities do not contain any provision which makes their availability to Cooper dependent on Cooper's credit ratings.

On March 27, 2008, Cooper's wholly-owned subsidiary, Cooper US, Inc. issued \$300 million of senior unsecured notes due in 2015. The fixed rate notes have an interest coupon of 5.45% and are guaranteed by Cooper and certain of its principal operating subsidiaries. Proceeds from the financing were used to repay outstanding commercial paper. Combined with the debt issuance discount, underwriting

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commissions and interest rate hedges implemented in anticipation of the offering, the notes have an effective annual cost to Cooper of 5.56%.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

As of June 30, 2008, there have been no material changes to Cooper's off-balance sheet arrangements and contractual obligations as described in its Annual Report on Form 10-K for the year ended December 31, 2007.

Backlog

Sales backlog represents the dollar amount of all firm open orders for which all terms and conditions pertaining to the sale have been approved such that a future sale is reasonably expected. Sales backlog by segment was as follows:

	June 30,	
	2008	2007
	(in millions)	
Electrical Products	\$ 798.7	\$ 680.6
Tools	87.2	75.5
	\$ 885.9	\$ 756.1

Private Securities Litigation Reform Act Safe Harbor Statement

This Form 10-Q includes certain forward-looking statements. The forward-looking statements reflect Cooper's expectations, objectives and goals with respect to future events and financial performance, and are based on assumptions and estimates which Cooper believes are reasonable. Forward-looking statements include, but are not limited to, any statements regarding future revenues, cost and expenses, earnings, earnings per share, margins, cash flows, dividends and capital expenditures. Cooper wishes to caution readers not to put undue reliance on these statements and that actual results could differ materially from anticipated results. Important factors which may affect the actual results include, but are not limited to, the resolution of Cooper's participation in the Federal-Mogul 524(g) trust, political developments, market and economic conditions, changes in raw material, transportation, and energy costs, industry competition, the ability to execute and realize the expected benefits from strategic initiatives including revenue growth plans and cost-control and productivity improvement programs, the magnitude of any disruptions from manufacturing rationalizations and the implementation of the Enterprise Business System, changes in mix of products sold, mergers and acquisitions and their integration into Cooper, the timing and amount of any stock repurchases by Cooper, changes in financial markets including currency exchange rate fluctuations and changing legislation and regulations including changes in tax law, tax treaties or tax regulations. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Cooper's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of Cooper's disclosure controls and procedures. Based on that evaluation, Cooper's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the disclosure controls and procedures are effective. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

Cooper is executing a multi-year process of implementing an Enterprise Business System (EBS) globally. Implementing an EBS system on a global basis involves significant changes in business processes. The implementation is phased, which reduces the risks associated with making these changes. In addition,

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Cooper is taking the necessary steps to monitor and maintain appropriate internal controls during the implementations. As of June 30, 2008, approximately 85% of Cooper's revenues are on the global system.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Discontinued Operations Liability

In October 1998, Cooper sold its Automotive Products business to Federal-Mogul Corporation (Federal-Mogul). These discontinued businesses (including the Abex product line obtained from Pneumo-Abex Corporation (Pneumo) in 1994) were operated through subsidiary companies, and the stock of those subsidiaries was sold to Federal-Mogul pursuant to a Purchase and Sale Agreement dated August 17, 1998 (1998 Agreement). In conjunction with the sale, Federal-Mogul indemnified Cooper for certain liabilities of these subsidiary companies, including liabilities related to the Abex product line and any potential liability that Cooper may have to Pneumo pursuant to a 1994 Mutual Guaranty Agreement between Cooper and Pneumo. On October 1, 2001, Federal-Mogul and several of its affiliates filed a Chapter 11 bankruptcy petition. The Bankruptcy Court for the District of Delaware has confirmed Federal-Mogul's plan of reorganization and Federal-Mogul emerged from bankruptcy in December 2007. As part of Federal-Mogul's Plan of Reorganization, Cooper and Federal-Mogul have reached a settlement agreement, subject to approval by the Bankruptcy Court as discussed further below, resolving Federal-Mogul's indemnification obligations to Cooper. As part of its obligation to Pneumo for any asbestos-related claims arising from the Abex product line (Abex Claims), Cooper has rights, confirmed by Pneumo, to significant insurance for such claims. Based on information provided by representatives of Federal-Mogul and recent claims experience, from August 28, 1998 through June 30, 2008, a total of 145,070 Abex Claims were filed, of which 119,329 claims have been resolved leaving 25,741 Abex Claims pending at June 30, 2008. During the six months ended June 30, 2008, 1,536 claims were filed and 5,245 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,100 before insurance. A total of \$138 million was spent on defense costs for the period August 28, 1998 through June 30, 2008. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims. However, insurance recovery is currently at a lower percentage (approximately 30%) due to exhaustion of primary layers of coverage and litigation with certain excess insurers.

2005

In December 2005, Cooper reached an agreement in negotiations with the representatives of Federal-Mogul, its bankruptcy committees and the future claimants (the Representatives) regarding Cooper's participation in Federal Mogul's proposed 524(g) asbestos trust. By participating in this trust, Cooper would resolve its liability for asbestos claims arising from Cooper's former Abex Friction Products business. The proposed settlement agreement was subject to court approval, approval of 75 percent of the current Abex asbestos claimants and certain other approvals. The settlement would have resolved more than 38,000 pending Abex Claims as of December 2005. Future claims would have been resolved through the bankruptcy trust. This December 2005 proposed settlement agreement has been subsequently renegotiated and replaced with a revised agreement in July 2006, as discussed below.

Key terms and aspects of the December 2005 proposed settlement agreement included Cooper agreeing to pay \$130 million in cash into the trust, with \$115 million payable upon Federal-Mogul's emergence from bankruptcy. The remainder would have been due on January 15, 2007, or upon emergence from bankruptcy, if later. Cooper would have received a total of \$37.5 million during the funding period from other parties associated with the Federal-Mogul bankruptcy. Cooper would have further provided the trust 1.4 million shares of the Company's stock upon Federal-Mogul's emergence from bankruptcy.

The December 2005 proposed settlement agreement also provided for further payments by Cooper subject to the amount and timing of insurance proceeds. Cooper had agreed to make 25 annual payments of up to \$20 million each, reduced by certain insurance proceeds received by the trust. In years that the insurance proceeds exceeded \$17 million, Cooper would have been required to contribute \$3 million with the excess insurance proceeds carried over to the next year. The trust would have retained 10 percent of the

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insurance proceeds for indemnity claims paid by the trust until Cooper's obligation was satisfied and would have retained 15 percent thereafter. The agreement had also provided for Cooper to receive the insurance proceeds related to indemnity and defense costs paid prior to the date a stay of current claims was entered by the Bankruptcy Court. Cooper would also have been required to forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. In addition, the parties involved had agreed to petition the court for a stay on all current claims outstanding.

A critical term of the December 2005 proposed settlement was the issuance of a preliminary injunction staying all pending Abex asbestos claims. At a hearing on January 20, 2006, other parties to the bankruptcy proceedings were unable to satisfy the court's requirements to grant the required preliminary injunction. As a result, the proposed settlement agreement required renegotiation of certain terms. The final determination of whether Cooper would participate in the Federal-Mogul 524(g) trust was unknown. However, Cooper management concluded that, at the date of the filing of its 2005 Form 10-K, the most likely outcome in the range of potential outcomes was a revised settlement approximating the December 2005 proposed settlement. Accordingly, the accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy was \$526.3 million at December 31, 2005.

The December 31, 2005 discontinued operations accrual included payments to a 524(g) trust over 25 years that were undiscounted, and included \$215 million of insurance recoveries where insurance in place agreements, settlements or policy recoveries were probable.

2006

On July 7, 2006, Cooper announced a revised agreement had been reached regarding Cooper's participation in Federal-Mogul's 524(g) trust. The revised proposed settlement agreement was subject to court approval and to certain other approvals and has been subsequently modified in December 2007, as discussed below.

Key terms and aspects of the revised proposed settlement agreement included Cooper and another party agreeing to pay \$256 million in cash into the trust on the date Federal-Mogul would emerge from bankruptcy, which included elimination of the previously proposed contribution of 1.4 million common shares to the trust by increasing the cash contribution. Cooper's net contribution into the trust is \$248.5 million.

As in the December 2005 agreement, Cooper had agreed to make 25 annual payments of up to \$20 million each to the trust with such payments being reduced by insurance proceeds. The minimum annual payment of \$3 million in the December 2005 agreement was eliminated. However, Cooper has also agreed to make advances, beginning in 2015 through 2021, in the event the trust is unable to pay outstanding qualified claims at 100 percent of the value provided for in the trust agreement. In the event that advances are made by Cooper, they will accrue interest at 5 percent per annum, and will be repaid in years where excess funds are available in the trust or credited against the future year annual payments. The maximum advances are \$36.6 million.

Under the revised agreement, Cooper would pay all defense costs through the date Federal-Mogul would emerge from bankruptcy and would be reimbursed for indemnity payments to the extent such payments are eligible for payment from the trust. Cooper would retain the rights to receive the insurance proceeds related to indemnity and defense costs paid prior to the date Federal-Mogul would emerge from bankruptcy. For claims paid by the trust, the trust would have retained 10 percent of any reimbursed insurance proceeds for the first 25 years and thereafter would have retained 15 percent.

As in the December 2005 proposed agreement, Cooper would forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. However, under the revised proposed agreement, which was subject to court approval, in the event that Cooper's participation in the Federal-Mogul 524(g) trust was not approved for any reason, or if Cooper elects not to participate or to pursue participation in the trust, Cooper and another party would receive a cash payment of \$140 million (\$138 million would be paid to Cooper) on the date Federal-Mogul emerged from bankruptcy and 20 percent of any insurance policy settlements related

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to the former Wagner business purchased by Federal-Mogul in 1998. If Cooper participates in the trust, it would receive 12 percent of any Wagner insurance settlements.

Cooper recorded a \$20.3 million after-tax discontinued operations charge, net of an \$11.4 million income tax benefit, in the second quarter of 2006 to reflect the revised terms of the agreement.

The revised proposed settlement agreement was incorporated into Federal-Mogul's Fourth Amended Joint Plan of Reorganization filed on November 21, 2006.

2007

On February 2, 2007, the U.S. Bankruptcy Court for the District of Delaware approved the adequacy of Federal-Mogul's Supplemental Disclosure Statement describing the Fourth Amended Joint Plan of Reorganization. The Court also approved the Voting Procedures and ordered that the voting period would expire on April 6, 2007. At a hearing on April 13, Federal-Mogul announced that the Abex settlement had received a favorable vote of approximately 94%, well in excess of the required vote. In addition, any objections to the Fourth Amended Plan were filed with the Court by April 24, 2007 and hearings on confirmation of the Plan were held the week of July 9th. The Court also held hearings on October 1 and 2, 2007 for final briefs and hearings. At the conclusion of these hearings, the Court neither approved nor rejected the revised proposed settlement agreement.

The U.S. Bankruptcy Court for the District of Delaware confirmed Federal-Mogul's plan of reorganization on November 8, 2007, and the U.S. District Court for the District of Delaware affirmed the Bankruptcy Court's order on November 14, 2007. As part of its ruling, the Bankruptcy Court approved the settlement between Cooper and Federal-Mogul, which would require payment of \$138 million to Cooper in the event Cooper's participation in the Federal-Mogul 524(g) trust is not approved for any reason, or if Cooper elects not to participate or to pursue participation in the trust. The Bankruptcy Court stated that it would consider approving Cooper's participation in the Federal-Mogul 524(g) trust at a later time, and that its order confirming the plan of reorganization and approving the settlement between Cooper and Federal-Mogul does not preclude later approval of Cooper's participation in the 524(g) trust. Accordingly, in an effort to continue working towards approval of Cooper's participation in the trust and to address certain legal issues identified by the Court, Cooper, Pneumo-Abex, Federal-Mogul, and other plan supporters filed the Modified Plan A Settlement Documents on December 13, 2007. The Modified Plan A Settlement Documents are the same in all material respects as the settlement documents filed with the Bankruptcy Court on July 7, 2006, except that the Modified Plan A Settlement Documents remove certain provisions relating to insurance to which various insurers and others had objected, and require a final, non-appealable order before Cooper is obligated to contribute to the asbestos claims settlement trust. If the Bankruptcy Court approves the modified settlement and that settlement is implemented, Cooper, through Pneumo-Abex LLC, will continue to have access to Abex insurance policies, but the settlement no longer provides for the retention of insurance proceeds by the trust.

2008

During the first quarter of 2008, the Bankruptcy Court concluded hearings on Plan A. In the second quarter of 2008, the Representatives filed a brief with the Court requesting a preliminary injunction staying Abex asbestos claims. On June 2, 2008, the Bankruptcy Court denied the Representatives' request. The Bankruptcy Court also stated that it was giving full consideration of Plan A and was hopeful that it would be in a position of ruling on Plan A in September 2008. However, there can be no assurance that the Court will rule on Plan A in that timeframe.

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The accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy and a progression of the activity assuming resolution through participation in the Federal-Mogul 524(g) trust is presented in the following table.

	Three Months		Six Months Ended	
	Ended		June 30,	
	2008	2007	2008	2007
	(in millions)			
Accrual at beginning of period	\$ 519.1	\$ 559.5	\$ 509.1	\$ 529.6
Indemnity and defense payments	(6.7)	(15.8)	(11.9)	(24.6)
Insurance recoveries	9.6		25.4	39.3
Other	(0.7)	(0.7)	(1.3)	(1.3)
Accrual at end of period	\$ 521.3	\$ 543.0	\$ 521.3	\$ 543.0

The discontinued operations accrual includes an initial payment of \$248.5 million in cash to the Federal-Mogul 524(g) trust with additional annual payments of up to \$20 million each due over 25 years, and the insurance recoveries include recoveries where insurance-in-place agreements, settlements or policy recoveries are probable. Cooper, through Pneumo-Abex LLC, has access to Abex insurance policies with remaining limits on policies with solvent insurers in excess of \$750 million. Cooper included insurance recoveries of approximately \$205 million and \$230 million in the discontinued operations accrual as of June 30, 2008 and December 31, 2007, respectively. Cooper believes that it is likely that additional insurance recoveries will be recorded in the future as new insurance-in-place agreements are consummated and settlements with insurance carriers are completed. However, extensive litigation with the insurance carriers may be required to receive those additional recoveries.

Although the payments related to the settlement could extend to 25 years and the collection of insurance proceeds could extend beyond 25 years, the liability and insurance are not discounted on Cooper's balance sheet as the amount of the actual annual payments is not reasonably predictable.

From a cash flow perspective, Cooper management continues to believe that a settlement on the terms of the Modified Plan A Settlement Documents would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. The settlement agreement remains subject to Bankruptcy Court approval and other matters. At this time, the exact manner in which this issue will be resolved is not known.

If Cooper is unable to reach a settlement to participate in the Federal-Mogul 524(g) trust, the accrual for discontinued operations may have to be adjusted to reflect the estimated liability and related insurance recoveries through the tort system. There are numerous assumptions that are required to project the estimated liability and related insurance recoveries in this scenario and Cooper is currently assessing the analysis to reasonably estimate such amounts. Cooper believes that such net amounts are unlikely to exceed the current discontinued operations accrual; however, there can be no such assurance until the analysis is completed.

Other Matters

Cooper is subject to various suits, legal proceedings and claims that arise in the normal course of business. While it is not feasible to predict the outcome of these matters with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Cooper's financial statements.

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Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Cooper's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table reflects activity related to equity securities purchased by Cooper during the three months ended June 30, 2008:

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs^{(1) (2)}
As of 3/31/08				11,167,947
4/01/08 4/30/08	88,068	\$ 39.90	88,068	11,079,879
5/01/08 5/31/08	152,911	\$ 43.58	152,911	10,926,968
6/01/08 6/30/08	148,000	\$ 43.06	148,000	10,778,968
Total	388,979	\$ 42.55	388,979	

⁽¹⁾ On November 2, 2004, Cooper's Board of Directors authorized the repurchase of up to ten million additional shares of Cooper Class A common stock. On February 12, 2008, Cooper's Board of Directors authorized the repurchase of ten million shares of common stock in addition to the remaining November 2, 2004 authorization, which is

reflected in the above table.

Cooper has also announced that the Board authorized the repurchase of shares issued from time to time under its equity compensation plans, matched savings plan and dividend reinvestment plan in order to offset the dilution that results from issuing shares under these plans. For 2008, Cooper's current estimate is that 3 million shares will be issued under equity compensation plans, which is reflected in the above table.

- (2) As of the date of this filing in 2008, Cooper had repurchased the 3 million shares intended to offset dilution from share issuances under equity compensation plans, as well as approximately 3.7 million additional shares under the Cooper Board of Directors

authorizations discussed above. Cooper may continue to repurchase shares under this authorization from time to time during 2008. The decision whether to do so will be dependent on the favorability of market conditions, as well as potential cash requirements for acquisitions.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of shareholders was held on April 29, 2008 in Houston, Texas. Four proposals, as described in Cooper's Proxy statement dated March 13, 2008, were voted upon at the meeting. The following is a brief description of the matters voted upon and the results of voting.

1. Proposal for the election of three directors for terms expiring in 2011:

	Robert M. Devlin	Linda A. Hill	James J. Postl
Votes For:	148,218,370	148,451,462	147,953,306
Votes Withheld:	37,666,525	37,433,433	37,931,590

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2. Proposal to appoint Ernst & Young LLP as independent auditors for 2008:

Votes For:	182,920,090
Votes Against:	1,362,086
Abstain:	1,602,719
Non-Vote:	0

3. Proposal to amend Cooper's Stock Incentive Plan:

Votes For:	168,905,315
Votes Against:	5,209,380
Abstain:	2,030,448
Non-Vote:	9,739,752

4. Shareholder proposal to implement a code of conduct based upon international labor organization human rights standards:

Votes For:	12,914,625
Votes Against:	104,243,076
Abstain:	58,987,442
Non-Vote:	9,739,752

Item 6. Exhibits

12. Computation of Ratios of Earnings to Fixed Charges for the Calendar Years 2003 through 2007 and the Six Months Ended June 30, 2008 and 2007.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cooper Industries, Ltd.

(Registrant)

Date: August 5, 2008

/s/ Terry A. Klebe

Terry A. Klebe, Senior Vice President
and
Chief Financial Officer

Date: August 5, 2008

/s/ Rick L. Johnson

Rick L. Johnson, Vice President,
Controller and
Chief Accounting Officer

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Exhibit No.

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